

PILOT Program for Affordable Multi-Family Housing

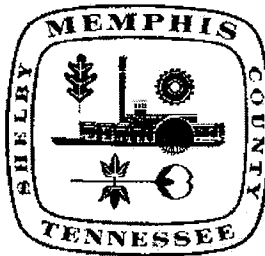
Application Process

Administered By

**The Health, Educational and Housing Facility Board
of the City of Memphis, Tennessee**

In Cooperation With

**THE CITY OF MEMPHIS
Division of Finance
and
Division of Housing and Community Development**



**Adopted: April 3, 2002
Revised: February 20, 2008**

APPLICATION PROCESS

PILOT PROGRAM (Payment In Lieu Of Taxes)

Administered By:
THE HEALTH, EDUCATIONAL AND HOUSING FACILITY BOARD OF THE CITY OF MEMPHIS,
TENNESSEE
(hereinafter HEHFB or Board)

Introduction

The PILOT (Payment In Lieu Of Taxes) Program is a financial incentive designed to encourage new construction and substantial rehabilitation of affordable multi-family housing through significant property tax relief for a period of ten (10) years within the limits of the City of Memphis (the "City"). Priority is given to development projects located in Target Areas, as defined by the City, at the time of the application.

Program Boundaries

The PILOT Program is offered for new construction and substantial rehabilitation projects throughout the City, with preference given to the Target Areas, as defined by the City at the time of the application.

Basic Eligibility Requirements

Investment: To be eligible for a PILOT, the value of the building renovations, site improvements or new construction must be equal to or greater than fifty percent (50%) of the total project ("Project") cost.

Site Control: The applicant ("Applicant") must have site control which shall be the equivalent of fee simple title, 99 year lease, or an option to purchase with no contingencies except financing.

Financial Commitment: Applicant must have evidence of financing commitment for total project costs.

Target Market: 20% of the Applicant's units must be occupied by individuals whose income is 50% or less of the median gross income or 40% or more of the units must be occupied by individuals whose income is 60% or less of the median gross income.

Tenant Benefits: Applicant must provide projection of how PILOT savings will directly benefit tenants either through rent reduction or stabilization and tenant services.

Application Process

1. **Pre-Submittal Conference-** A mandatory meeting with the HEHFB Executive Director shall be held prior to submission of a PILOT application. This meeting is to acquaint all parties with the scope of the Project and any related issues. This meeting also serves to familiarize the Applicant with the overall submittal and review process as well as overall PILOT policies and basic eligibility requirements. **The Board reserves the right to reject applications when this requirement has not been met.**
2. **Submittal of Application-** An outline of the PILOT application follows in this package. The official application must be assembled based on this outline. Fifteen copies of the application must be submitted prior to the application deadline. **APPLICATIONS WILL ONLY BE ACCEPTED DURING AN ACTIVE PILOT ROUND.**

The applications should be delivered to:
The Health, Educational and Housing Facility Board of the City of Memphis, Tennessee
65 Union Avenue, Suite 1120
Memphis, TN 38103

3. *Board Review and Approval* - The Health, Educational and Housing Facility Board of Directors ("the Board") generally meets on the first Wednesday of each month at 12 Noon. Meetings are held at the Office of the Board located at 65 Union Avenue, Suite 1120, Memphis, Tennessee 38103. Per resolution of the Board, a Board PILOT Committee (the "PILOT Committee") has been established to review, with the staff, and make recommendation to the Board for PILOT application approvals and ongoing monitoring and compliance. Applicants may be permitted to present to the Board after staff evaluation and review and based on recommendation by the PILOT Committee. The Board will deliberate on all applications and render its decision(s) on all applications at a later time.
4. *Closing* - If the Project is approved by the Board, the Board's General Counsel will prepare and distribute PILOT documents and will arrange a PILOT closing at which time regulatory and compliance agreements will be executed and all required documents will be filed with the City and Shelby County taxing authorities, and all necessary documents will be duly recorded with the Shelby County Register of Deeds (the "Closing").

Applicant Fees

Application Fee:

Application Fee is defined as a non-refundable fee, due and payable upon submission of the application, per project calculated on the following basis:

- \$3,000 for all Projects with total project costs of less than \$5,000,000;
- \$4,000 for all Projects with total project costs of \$5,000,000-\$10,000,000;
- \$5,000 for all Projects with total project costs greater than \$10,000,000.

Reservation Fee:

Reservation Fee is defined as a non-refundable fee equal to .25% (25 basis points) of the Board's closing fee (as defined hereafter) and is due and payable within sixty (60) days of PILOT approval by the Board. This fee will be credited to the Applicant at Closing. Failure to pay the Reservation Fee in a timely way will result in forfeiture of the PILOT approval.

Closing Fee:

Closing Fee is defined as one percent (1%) of the total project cost, plus applicable attorney fees and filing fees. Closing Fees are assessed and due at Closing.

Extension Fee:

The Applicant will have up to six (6) months from the time of approval by the Board to close the PILOT transaction. If the transaction has not closed within that time, the Project will be allowed a one time, automatic six (6) month extension, upon payment of an extension fee. The Extension Fee is defined as a payment equal to the original application fee. Said Extension Fee will be due and payable before any extension is considered. The Extension Fee shall not be credited against the Closing Fee.

Transfer Fee:

Each PILOT transfer must be approved by the Board after consideration of a PILOT Transfer Application submitted by the potential transferee. The Transfer Fee is defined as one-half of the original Application Fee, plus applicable Board expenses including reasonable attorney fees. The Transfer Fee shall be submitted with the PILOT Transfer Application.

Annual Fees:

Annual fees are defined as annual PILOT payments to the City and County taxing authorities.

Other Closing Requirements

The following must be provided at Closing:

- Liability insurance on the property with coverage amount equal to the full value of the property. The Board should be named as an additional insured with certificate provided prior to closing.
- An endorsement from an approved title insurance company evidencing the Board as an additional insured party.
- Phase I Environmental Assessment

Health, Educational and Housing Facility Board Contacts

Executive Director	John L. Baker Office Telephone: (901) 527-6400 Office Fax: (901) 527-6405 Email Address: jlbhehf@aol.com Web Site: www.memphishehf.org
General Counsel	Charles E. Carpenter, Esquire Office Telephone: (901) 523-7788 Office Fax: (901) 523-2849 Email Address: charlesc@386beale.com

ATTACHMENTS:

- ❖ **GENERAL POLICIES AND PROCEDURES – Exhibit A**
- ❖ **PAYMENT IN LIEU OF TAX CRITERION – Exhibit B**

APPLICATION OUTLINE for the PILOT Program

Applicant Information

1. Name C. E. Ware Towers, Inc.
Address 8571 South Third Street
Memphis, Tennessee 38109
E-mail pdees@tescoproperties.com Phone 901-759-7278

2. Applicant's representative(s) names See below
Other project financial guarantor(s) _____

Contact information if different from above

Name Frank S. Carney & A. Kent Gieselmann, Jr.
Address Evans & Petree PC
1000 Ridgeway Loop Road, Suite 200
Memphis, Tennessee 38120
E-mail fcarney@evanspetree.com Phone 901-525-6781
(Note: Attach additional pages as needed.)

3. Relevant background information about the Applicant and Guarantors, including development experience, if any, and all other relevant information this organization may need to consider while reviewing the application. Describe the corporate or partnership structure as applicable.

C.E. Ware Towers is an elderly housing development under section 202 PRAC of the U.S. Department of Housing and Urban Development ("HUD"). The site is owned by a private, non-profit corporation. The development consists of 56 apartment units, 55 of which are subsidized by low-income tenants aged 62 or older under the Section 8 Elderly Program. The certificate of occupancy was issued in January, 2006, and HUD granted permission to occupy in February, 2006. The property is 100% leased, with one unit set aside for the Site Manager of the Property.

(Note: Attach additional pages as needed.)

4. Financial Background
- a. Current audited financial statements of the Applicant and Guarantors. If audited financial statements are unavailable, please submit non-audited statements.
- attached XX (Yes)
- b. State the relationship any Applicant or Guarantor has had with any accounting firm over the last five years and reason for change, if any.
Rowland and Carter, PLLC has been the accounting firm for the Applicant, handling all audits, including the HUD audit

- c. Three years of federal tax returns if Applicant is an individual.
- attached NA (Yes)

5. Give three credit references for you personally, and three for your business.

Personal

NA

Business

Robert "Bob" Neiman, First Horizon Bank, 165 Madison Avenue, Memphis, Tennessee
38103. Phone: 901-523-4259

Mike DaPrato, On Site Systems, 23 North Gore Avenue, Webster Groves, Missouri 63119
Phone: 314-963-9934

6. Please disclose whether any Applicant, Guarantor or any other person involved with the Project is currently engaged in any civil or criminal proceeding. Also disclose whether any individual involved with the Project has ever been charged or convicted of any felony or currently is under indictment. Please supply detailed information.
(Note: Attach additional pages as needed.) NA

7. Any previous or current relationship between Applicant or any Guarantor and any Board member _____ (Yes) XX (No). If yes – describe in detail.

8. Any previous or current relationship between Applicant or any Guarantor and General Counsel of Board _____ (Yes) XX (No). If yes – describe in detail.

Project Information

1. Brief project description (including items listed below).
There are 56 total units; 55 units are subsidized by HUD, one unit is set aside for the
Site Manager's use. Rents include 100% of all utilities. All subsidized units are one-bedroom,
one bath, and four are handicap accessible. This Project was developed by the late Reverend
C.E. Ware in 2006.

 - a. Intended usage
Housing for elderly and disabled, aged 62 and older.
 - b. Economic and environmental impact
Supplies much-needed housing in a particular submarket.
 - c. Square footage of all improvements / land area for construction or rehabilitation
The building is 43,181 square feet, gross.
 - d. All other information needed to fully explain the Project
The property is regulated by HUD and subject to a Regulatory Agreement.

 - e. Demolition and, or architectural plans and renderings and any available history on the
proposed project – attached NA (Yes)
 - f. Letter from a certified engineer, licensed in the State of Tennessee, as to the structural
integrity of any existing building, for its intended usage, if applicable
-- attached _____ (Yes) NA (NA)
2. Briefly state marketing approach/plans for the intended market. Identify and provide contact
information for the proposed management company and provide projected lease-up
schedule.
The property is currently 100% occupied. It has a waiting list of prospective
tenants. The management company is TESCO Properties, Inc., 2171 Judicial Drive, P.O. Box
381677, Germantown, Tennessee 38183, phone: 901-759-1855. TESCO contacts include Larry
Sisson, Vice President, Philip Dees, Treasurer and Linda Mills, Regional Manager.

3. Location of proposed project by street address, parcel number, and legal description.
The property is located at 3571 Third Street, Memphis, Tennessee 38109. The Parcel Number
is 075-074-00075.

(Note: Attach additional pages as needed.)

 - a. Name the property owner at the time of application submittal
C.E. Ware Towers, Inc.
 - b. Evidence of site control in the form of deed, long term lease, or option agreement
- attached XX (Yes)

c. Describe any and all existing financing, options and liens on the property
Cost of the project is financed by Capital Advance Construction; the original note amount was \$3,548,300.00. The note has no interest and bears no repayment for so long as the housing remains available for low-income elderly individuals. In the event of default, the loan is due at an interest rate of 5.375%.

4. Estimated Project costs broken down by component. "Project Costs" for the purposes of assessing the amount of the Issuer's fee and the amount of the PILOT allocation shall include all costs except property appraisals, market studies, environmental studies, monitoring fees, and rent-up costs. The Project will be required to submit an inspection certificate from an architect or engineer, or a lender's certificate to evidence and certify the total project costs.

5. Indicate changes needed to the public spaces and, or infrastructure around the Project (e.g. - sidewalks, lighting, and landscaping)? NA (Yes)
If yes - describe plans, costs and financing
All renovation is complete. However, this Project will not remain viable without property tax relief.

6. State the proposed timing/anticipated dates for the following -
- | | |
|---|---------------|
| a. Closing of the loan or contributing financing availability - | <u>6/2007</u> |
| b. First expenditure of funds related to the Project - | <u>NA</u> |
| c. Anticipated date of demolition or construction start - | <u>2005</u> |
| d. Anticipated completion date - | <u>1/2006</u> |
| e. Projected lease up date - | <u>NA</u> |

7. Project professionals - indicate names, address, and phone number -

- a. Counsel -
Frank S. Carney & A. Kent Gieselmann, Jr.
Evans & Petree PC
1000 Ridgeway Loop Road, Suite 200
Memphis, Tennessee 38120 Phone: 901-525-6781
- b. Architect and, or Engineer -
NA
- c. Contractor -
NA
- d. Property Manager -
TESCO Properties, Inc.
2171 Judicial Drive, P.O. Box 381677
Germantown, Tennessee 38183 Phone: 901-759-1855
- e. Other professionals as applicable -
NA

Property Tax Information

Note: According to State Statute and the guidelines of this program, title for the subject property must be conveyed to the HEHFB for the term of the PILOT.*

1. State the tax parcel number(s) for all property involved with the Project
075-074-00075
2. State the current assessed value of all Project property
\$756,720.00
3. Indicate any tax assessments under appeal, and status of appeal
NA
4. Indicate any subdivision of tax parcels that will result from Project
NA
5. Indicate name in which property will be held
C.E. Ware Towers, Inc.

*** For all Senior Housing PILOT's involving non-profit entities, title is not required to be placed with the Board to obtain property tax exemption.**

Project Financing Information

1. Project financing structure information
 - a. Contact information for lender and capital provider
Name U.S. Department of Housing and Development, c/o Mr. Ed Phillips
Address 235 Cumberland Bend, Suite 200
Nashville, Tennessee 37228-1803
E-mail _____ Phone 615-736-7000
 - b. Amount of loan or bond \$3,548,300
 - c. Lender's commitment letter – attached NA (Yes)
(Note: Please stipulate any and all conditions to be met.)
 - d. Loan or bond documents as applicable – attached XX (Yes)
2. Five years cash flow pro forma* showing Project's ability to service its debt
– attached _____ (Yes)

*** This should be done two ways – with and without the PILOT – detailing amenities or other tenant benefits deriving from the PILOT.**
3. Financial history of the Project and previous attempts to develop or finance
– attached _____ (Yes) NA (NA)

Sponsors of projects approved under this PILOT Program will be required to submit annual reports certifying tenant income levels, and the benefits being realized by the tenants. The HEHFB shall reserve the right to monitor tenant benefit programs, which shall be a covenant of, and condition to the continued participation in the PILOT program.

The statement below must be included along with a dated signature of the Applicant or Applicant's representative.

This application is made in order to induce The Health, Educational and Housing Facility Board of the City of Memphis (HEHFB) to grant financial incentives to the Applicant. The Applicant hereby represents that all statements contained herein are true and correct. All information materially significant to the HEHFB in its consideration of the application is included. The Applicant expressly consents to the HEHFB's investigation of its credit in connection with this application. The Applicant acknowledges that it has reviewed the descriptions of the HEHFB financial program for which it is applying and agrees to comply with those policies. The Applicant further acknowledges that it has received a copy of the Board's General Policies and Procedures for the PILOT program, and acknowledges that the General Policies and Procedures are an intricate part of the application process. The Applicant shall also be required to show a good faith effort with regard to the employment of minority contractors. The Applicant specifically agrees to pay all reasonable costs, fees and expenses incurred by the HEHFB whether or not the incentive is granted or Project completed.

C.E. WARE TOWERS, INC.

OK
PWO

Applicant

By: Marilyn Stalfacre
Title: President
Date: June 19, 2008

Original signature (in blue ink) required on original application form.

Copies of original signature page may be included in the 15 copies of the application.

EXHIBIT A

GENERAL POLICIES AND PROCEDURES

As set forth in the Tennessee Code Annotated (TCA), Sections 48-101-308 et seq (the "Act"), The Health, Educational and Housing Facility Board of the City of Memphis (the "Board") is authorized to finance, acquire, improve, maintain, extend, lease, dispose of properties, and establish a PILOT program in order to maintain and increase employment opportunities, and to increase the quantity of affordable housing available in affected municipalities, and to promote the economic vitality and well being of the community. The annual allocation limit for the PILOT program as established by the Council of the City of Memphis (the "Council") is \$50,000,000, which aggregate amount is determined by the total Project costs of each approved project. There shall be a minimum of two PILOT application rounds per year, based on available allocation remaining, with the time frame for such rounds to be determined by the Board. For the purposes of assessing the amount of the Closing Fee and the amount of the PILOT allocation, Project Costs is defined to include all costs except property appraisals, market studies, environmental studies, monitoring fees, and rent-up costs.

PILOT Qualifications

The following criterion sets forth the requirements for a property to qualify under the Board's PILOT program:

1. The project must be strictly an affordable multi family program (as defined by TCA).
2. The value of the building renovations, site improvements or new construction must be equal to or greater than 50% of the total project costs including property acquisition and hard costs.
3. The project's primary use must be affordable multi-family residential within the limits of the City of Memphis (the "City") containing a minimum of twenty-four (24) units.
4. The total project cost, including acquisition and construction costs, must be equal to or greater than \$1 million for new construction projects \$750,000 for acquisition/ rehabilitation projects.
5. The project must meet the following requirement: 20% or more of the Applicant's units must be occupied by individuals whose income is 50% or less of the median gross income or 40% or more of the units must be occupied by individuals whose income is 60% or less of the median gross income.

Approval Screening

Timely submittal of a PILOT application is required to initiate the process. All applicants are required to attend a mandatory pre-submittal conference with a designated representative of the Board wherein the Applicant will be further apprised of the PILOT review process, PILOT policies and basic eligibility requirements. The Applicant must also set forth the expected benefits to the tenants of the Project as a result of PILOT benefits, including an analysis of the monetary amount anticipated to be utilized for the administration of tenant based programs, using the analysis of the tax amounts saved with the PILOT in place and without PILOT approval.

Initial review of the application will be done by the PILOT Committee and staff. Upon review and recommendation by the PILOT Committee, final approval shall be determined by the Board of Directors.

Board approval will be weighted on the above PILOT Qualifications. In addition, the Board will consider the following, listed in order of priority:

1. Location of the Project in a Target Area, as is defined by the City at the time of application; **
2. Detailing and tracing of tenant benefits; (See p. 9, Project Financing Information item 2.)

3. Type of financing, with preference given to PILOTs submitted with tax-exempt bond financing to be issued by the Board;
4. Applicants with the lowest project cost per unit;
5. Applicants with the lowest project cost per square foot of heated floor space reserved for low income tenants;
6. Community impact; and
7. If in the initial round of applications for each calendar year an applicable project is submitted for scattered site housing, a preference of 10% of Board's annual allocation shall be set aside for Single Family scattered site houses, as qualified under the Code and per authorizing Resolution of the City Council.

** The City of Memphis Target Areas can be viewed and downloaded as follows –

- Go on line to scif.memphistn.gov
- See FY 2009 STRATEGIC COMMUNITY INVESTMENT FUNDS (SCIF)
- View and, or download "AGENCY PROFILE INSTRUCTION PACKET & APPLICATION"
- Map and area boundaries are on pages 36-38.

(If an applicant cannot access the information this way, they should call the Board's office, for further assistance.)

Fee Schedule

The Closing Fee assessed by the Board for issuing the PILOT shall be one percent (1%) of the certified project cost payable at Closing. For the purposes of determining the Closing Fee in connection with a project, project costs shall be determined on the basis of the total certified cost for a project including, without limitation, all acquisition and hard costs. The budget set forth in any application to the Board shall be deemed to be a certification by the Applicant that the budget set forth therein is a reasonable estimate of all project costs. An updated budget may be requested on behalf of the Board at the time of the signing of such PILOT agreement.

The Closing Fee of one percent (1%) of project cost will be charged to participating developments. This fee will be divided as follows: seventy percent (70%) to the Board and thirty percent (30%) to the City of Memphis Division of Housing and Community Development ("HCD").

For Memphis Housing Authority ("MHA") assisted tax credit developments, which are allowed a twenty (20) year term, the Closing Fee will be divided as follows: thirty percent (30%) to the Board and seventy percent (70%) to HCD.

Project Cost

There will be a preliminary and final evaluation of total project cost to ensure strict compliance with the requirement that the value of the certified project site improvements, renovation or new construction equals fifty percent (50%) of the total project costs. The preliminary evaluation will be done in the pre-submittal conference, with the final evaluation held at Closing. **For purposes of the final evaluation, the Project will be required to submit an Architect's Inspection certificate or Lender's certificate to evidence and certify the total project cost prior to Closing.**

PILOT Documents

The required documentation for an approved PILOT transaction includes the following:

- a. PILOT Agreement;
- b. Lease Agreement; and
- c. Quit Claim Deed transferring title to the property to the Board.

Compliance/Monitoring

It is the purpose of this program to benefit low and moderate income tenants. As a result, properties included in this tax relief program are subject to semi annual reporting and monitoring requirements for

compliance with both the terms of this program and with other fair housing practices. Each approved applicant will be required to submit compliance and monitoring procedures to the Board to insure compliance with PILOT program requirements. Said compliance requirements will be provided in the pre-submittal conference. The costs of the compliance and monitoring services shall be the responsibility of the Applicant. The compliance and monitoring by the Board will be provided by a third party vendor, and will include, but is not limited to, tracking on a quarterly basis of the following:

1. Total amount of the tax benefit earned by PILOT;
2. Total value of tenant benefit generated by PILOT tax relief;
3. Annual cost of programs administered on behalf of the tenant;
4. Evidence of percentage of tenants whose income falls within 50% or 60% of the area median income;

If after review any Project is found to be deficient in meeting the PILOT standards, the Applicant will be allowed a sixty (60) day period within which to redress any and all deficiencies. If the deficiencies are not cured in a timely way, it will be a material default and upon recommendation of the Committee, the PILOT will be subject to termination by the Board.

Additionally, before October 1 of each year, as required by the Code, the lessee shall submit to the State Board of Equalization, the Shelby County Board of Equalization, the Shelby County Assessor, and the Board an annual report containing (a) a list of all the real and personal property owned by the lessee and its associated entities (b) the value of each listed property as estimated by the lessee (c) the date and term of the lease for each listed property (d) the amount of payments made in lieu of property taxes for each listed property (e) the date each listed property is scheduled to be returned to the regular tax rolls and (f) a calculation of the taxes which would have been due for each listed property if the properties were privately owned or otherwise subject to taxation. Each lessee shall be responsible for the timely completion and filing of the report, and failure to timely complete and file the report shall subject such lessee to a penalty as provided in the Act, as supplemented or amended.

The Board is required to make a quarterly report to the City Council on the status of the PILOT program. An annual audit is also prepared and presented by the Executive Director of the Board.

Additional Guidelines

1. The maximum allowable term for a PILOT lease shall be ten (10) years.
2. Payments in lieu of taxes shall be based on the current assessment of the property as published by the Shelby County Assessor of Property at Closing.
3. An applicant must own the property or have an option or other right to purchase the property in order to be eligible to apply for a PILOT. Said site control shall be the equivalent of fee simple title, 99 year lease or an option to purchase with no contingencies except financing.
4. Applications for PILOT approval must include a five (5) year project pro forma/financial analysis of the project's income, expenses and tenant benefits.
5. Affordable multi-family residential or housing facility is defined as twenty-four (24) or more residential units located in a single building, on one parcel of land or on contiguous parcels of land as defined in the Code.
6. An Applicant will have up to six (6) months from the time of approval by the Board to close a PILOT transaction. If the transaction has not been closed within that time, the Project will be allowed a one time, automatic six (6) month extension, upon payment of an extension fee. An extension fee equal to the original application fee will be due and payable before said extension shall be granted. The extension fee shall not be credited against the closing fee. Any additional extensions will require a good cause showing before the Board before approval.
7. All PILOTs not closed within one (1) year of approval are subject to withdrawal.
8. If property approved for a PILOT becomes vacant and unoccupied for a period of one year, the PILOT agreement will be terminated and the property may return to the tax rolls at the then current tax assessment.

9. All PILOT transactions will be closed in the name of the Applicant or party designated in the application as the owner of the project. Prior written approval of Board will be required for substitution of another party under any PILOT agreement prior to closing thereof.
10. No PILOT agreement may be transferred/assigned without the approval of the Board. The transferee/assignee must agree to comply with the terms of the PILOT documents, meet all compliance requirements, execute all necessary transfer/assignment documents, and pay required transfer fee of one-half of the original application fee, plus applicable Board expenses and attorney fees.
11. Upon completion of any Project subject to a PILOT agreement, the Project shall be reviewed to determine if the Project was completed as set forth in the application with respect to such project plans and specifications as approved by the Board.
12. Project value shall be determined on the basis of the total appraised value given (including, without limitation, cash and assumption of debt) in the event of sale, transfer or assumption of all of the lessee's interest in a PILOT. If the sale, transfer or assumption is for less than all of the lessee's or borrower's interest, project value shall be determined on the basis of an appraisal of the Project.
13. In the event the Project is sold or refinanced, it is possible to continue the PILOT, subject to certain conditions as approved by the Board, but any legal or other costs associated with the matter will be borne by the Applicant.

Transfer of PILOT

There shall be no automatic transfers of the PILOT by the Applicant, and any attempt to do so shall be void ab initio. However, for Projects with a recorded Land Use Restriction Agreement exceptions may apply. Each PILOT transfer must be approved by the Board after consideration of a PILOT Transfer Application by the potential transferee. As a condition of transfer, the transferee must agree to comply with the terms of the PILOT Agreement and other PILOT conditions, including compliance and monitoring. The transfer fee is one-half of the original application fee, plus applicable Board expenses including reasonable attorney fees. The transfer fee shall be submitted with the PILOT Transfer Application. **All transfer applications must be submitted to the Board a minimum of two (2) weeks prior to the Board meeting at which the transfer application will be considered.**

Deeds of Trust

The Board will agree to enter into a Deed of Trust, as requested, in order for the Applicant to obtain permanent financing after PILOT approval. The Board assumes no liability whatsoever, financial or otherwise, for payment of the obligations of the Applicant as evidenced by any note secured thereby. Anything to the contrary in a Deed of Trust notwithstanding, in the event of default on the note by the Applicant, the sole remedy for a lender against the Board is the conveyance of the property to lender. A lender, by accepting the Deed of Trust, agrees that it shall not sue for, seek or demand any deficiency judgment or other money judgment or to impose any liability against Board or its successors and assigns (including any incorporator, member, director, employee or agent) for repayment of any debt and is fully exculpated therefrom by lender, trustee, and Applicant.

GENERAL POLICIES AND PROCEDURES FOR SENIOR HOUSING PILOTS

Pursuant to Tennessee Code Annotated 67-5-207(a)(1), as amended, property of nonprofit corporations within the State of Tennessee used for permanent housing of low income persons with disabilities or low income elderly persons or handicapped persons is exempt from property taxation. All claims for property tax exemption under 67-5-207 are also subject to Section 67-5-212 (b), which provides that an application seeking approval of the exemption must be filed with the State Board of Equalization.

In lieu of payment of property taxes, for which an exemption is granted, approved Senior Housing PILOT applicants shall make annual PILOT payments to any county, municipality, metropolitan government or district, as provided in Section 67-5-2-7(2). Pursuant to Resolution adopted by the Memphis City Council on December 4, 2007, said PILOT amount shall equal twenty-five (25%) percent of the ad valorem taxes due on the property at the time the PILOT is applied. Additionally, the maximum term of the PILOT shall be the same term as any governmental loan or grant as described at the time of approval.

Senior Housing PILOT allocations shall not be included as part of the PILOT Program annual allocation limit of \$50,000,000 of total project cost.

**GENERAL POLICIES AND PROCEDURES FOR
MEMPHIS HOUSING AUTHORITY
LOW INCOME HOUSING TAX CREDIT PROPERTIES**

The Board is authorized by Resolution adopted on May 7, 2002 by the Council of the City of Memphis, Tennessee (the "Council") to negotiate and enter into agreements with qualified lessees in connection with payments in lieu of ad valorem taxes, provided that such payments are deemed by the Board to be in furtherance of its public purpose (the "Resolution"). The Memphis Housing Authority ("MHA") is a public housing agency and is authorized by legislation codified as T.C.A. §13-20-104, et seq., as amended, among other things, to establish a payment in lieu of ad valorem taxes program ("MHA PILOT"). T.C.A. §48-101-301 et seq. and T.C.A. §13-20-104, et seq. (collectively, the "MHA PILOT Act"); however, in lieu of seeking a direct delegation of authority, a variance of the Board's delegation was applied for and granted.

Pursuant to the MHA PILOT Act, the Resolution was amended by the Council on September 2, 2003, (the "Amended Resolution") to provide a variance to the Board's PILOT program for the benefit of MHA, so that it may continue its public benefit purposes of providing safe, decent and affordable housing for low and moderate income families within the City of Memphis, and such purposes to be furthered by a variance restricted exclusively for projects developed through the assistance of low income housing tax credits ("LIHTC"), under Section 42 of the Internal Revenue Code of 1986, as amended (the "Code").

Eligibility Criteria:

- A. Approved projects must be affordable housing properties that are developed, acquired or subsidized by MHA to serve the general welfare of the citizens of the City of Memphis, Tennessee (the "City") and the County of Shelby, Tennessee (the "County").
- B. Approved projects must meet all criteria for the PILOT as established by the Amended Resolution and the Board.
- C. Approved projects must develop LIHTC properties that are restricted under government regulations pursuant to the Code.
- D. Approved projects shall be endorsed, in writing, by MHA to be deemed to be in compliance with the Act, the Amended Resolution, the Code, and in furtherance of MHA's mission in providing safe, decent and affordable housing to the citizens of the City and County.
- E. The maximum allowable term for an approved MHA PILOT shall be twenty (20) years.
- F. To be eligible to apply for a PILOT, at the time of the initial application, the Applicant must have site control, which shall be the equivalent of (i) fee simple title, (ii) a long term ground lease of not less than 50 years or (iii) an option to purchase with no contingencies except financing, and (iv) the Applicant must demonstrate evidence of financing commitment for total project costs.

PILOT Structure:

- A. For PILOTS issued hereunder, the Board will structure the PILOT and coordinate its implementation through the Shelby County Assessor's Office by finalizing (i) a PILOT Agreement, (ii) a Quit Claim Deed filed in the name of the Board and (iii) a PILOT Lease Agreement between the Board and the owner.
- B. The Board will hold legal title to the real property, as a nominee only, solely for purpose of the PILOT, and all other incidents of ownership of the real property for all purposes will flow to the lessee.

- C. At the end of the PILOT term, which shall not exceed a period of twenty (20) years, the Board shall by Quit Claim Deed convey the real property to the owner.
- D. The Board shall prepare or assist in the preparation of the Quit Claim Deed, PILOT Agreement and PILOT Lease Agreement to effectuate the above structure.
- E. In the event that MHA holds legal title to the property, and intends to execute a long term ground lease of the property with a third party, the document structure will be for the third party to sub-lease the property to the Issuer and the Issuer will sub-sub lease the property to the third party which will finance, own and operate the improvements therein.

The maximum allowable term for a PILOT on MHA LIHTC properties is twenty (20) years. Such PILOT approval shall fall outside of the annual allocation limit of \$50,000,000 of total project cost. Submission of an application for an MHA PILOT is not limited to an active PILOT round. Said application will be accepted during active PILOT rounds as well as at regular monthly meetings.

Generally, MHA LIHTC properties do not have a property assessment value to submit with the PILOT application, as the property has been previously exempt under a prior governmental or exempt entity. As such, upon PILOT approval said properties with no current assessment value must submit to the Board an independent appraisal of the property which sets forth a predevelopment market value assessment in order that the PILOT amount can be determined under the regular PILOT calculation. The Board shall submit an approved appraiser listing to each affected Applicant.

As set forth in the MHA PILOT Act, before October 1 of each year, MHA shall submit to the State Board of Equalization an annual report containing a list of all the real and personal property owned by the housing authority and its associated entities and subsidiaries with respect to which payments in lieu of ad valorem taxes have been negotiated and accepted; the value of each listed property, as estimated by the lessee of the property; the date and term of the lease for each listed property; the amount of payments made in lieu of property taxes for each listed property; the date each listed property is scheduled to return to the regular tax rolls; and a calculation of the taxes which would have been due for each listed property if the properties were privately owned or otherwise subject to taxation. Each lessee of MHA shall be responsible for the timely completion and filing of the report, and failure to timely complete and file the report shall subject such lessees to a penalty equivalent to that applicable to similar lessees of industrial development corporations, which includes a penalty of fifty dollars (\$ 50.00) for each day the report is late up to a maximum of five hundred dollars (\$500), and the maximum penalty shall accrue interest at the rate of one and one-half percent (1.5%) per month, plus any cost of collection; provided, that no lessee shall be liable who has provided the State Board of Equalization information required by this section as may be pertinent to property leased by the lessee from MHA.

EXHIBIT B

THE HEALTH, EDUCATIONAL AND HOUSING FACILITY BOARD OF THE CITY OF MEMPHIS

Payment in Lieu of Taxes (PILOT) Criteria

CRITERIA

HEHFB PILOT

Location : Activity
Central Business
Within Parkway
City Wide

Not Targeted
Priority for Targeted Areas
Priority for Targeted Areas

Low to Moderate (LMB) Benefit

20% of the units shall be occupied by individuals or families of low or moderate income, except that the percentage of median gross income which qualifies as low or moderate income shall not be more than 50% or less of the median gross income ; or

40% of the units shall be occupied by individuals or families of low or moderate income, except that the percentage of median gross income which qualifies as low or moderate income shall not be more than 60% or less of the median gross income

Development Size

at least 24 units

Minimum Project Cost

New Const. = \$1,000,000
Acquisition/Rehab = \$750,000

Minimum Rehab Investment

at least 50% and at least \$250,000

Maximum Length of Freeze

10 years for regular PILOT; 20 years for MHA

City Component
County Component

Freeze
Freeze

Tenant Impact Analysis
(Benefit Pass-Through)

Monitoring and Compliance Required

OTHER NOTES

- The annual allocation limit for the program is \$50,000,000 of Total Project Cost.
- Closing Fee of one percent (1%) of project cost will be charged to participating developments and divided as follows: seventy percent (70%) to the HEHFB and thirty percent (30%) to the City of Memphis Division of Housing and Community Development ("HCD").
- For Memphis Housing Authority ("MHA") assisted tax credit developments, the Closing Fee will be divided as follows: seventy percent (70%) to HCD and thirty percent (30%) to the HEHFB.

ACCOUNT DESCRIPTION	-----HISTORICAL-----		2009 *BUDGET*	% Change From 08	\$ Change From 08	NARRATIVE:
	2007 ASF	2008 Est.				
RENT POTENTIAL	259,455	280,740	362,660	22.59%	81,920	Projected incr required 30-38%
TOTAL VACANCIES & CONCESSION	4,733	12,492	3,615	-245.60%	(8,877)	Based on turnover & new manager capabilities
NET RENTAL INCOME	254,722	268,248	359,045	25.29%	90,797	30-38% incr cover big systems construction flaws
TOTAL OTHER INCOME	703	2,848	2,520	-13.02%	(328)	Based on past (12) month activity
TOTAL INCOME	255,425	271,096	361,565	25.02%	90,469	30-38% temp rent incr to fund start-up & construction flaws; trend other income; reduc
TOTAL RENTING EXPENSE	750	8,706	10,030	-13.20%	(1,324)	Includes stipend for resident courtesy watchmen
TOTAL ADMIN EXPENSE	61,210	94,331	126,020	-25.15%	(31,689)	Expense estimated cable refunds
TOTAL UTILITIES EXPENSE	66,709	60,401	67,461	-10.47%	(7,060)	Overall 30.68% increase per MLGW
TOTAL MAINTENANCE EXPENSE	71,177	85,372	89,691	-4.82%	(4,319)	Based on trend; actual contract; age of site
TOTAL TAXES & INSURANCE	16,739	14,177	22,562	-37.17%	(8,385)	Based on current premiums
TOTAL RESERVES & ESCROWS	44,351	38,528	45,876	-16.02%	(7,348)	Liability & Earthquake insurance; RR deposits
TOTAL OPERATING EXPENSES	260,936	301,515	361,641	-16.63%	(60,126)	Insur escrows funds borrowed to fund RR in 2008; 2009 current premiums & requirem
NET OPERATING INCOME	(5,511)	(30,419)	(75)	-40393.71%	30,344	Affected by cable refunds of \$27,000
TOTAL DEBT SERVICE	-	-	-	0.00%	-	No debt service
CASH FLOW FROM OPERATIONS	(5,511)	(30,419)	(75)	-40393.71%	30,344	Affected by cable refunds of \$27,000
TOTAL CAPITAL IMPROVEMENTS	-	10,641	25,350	-58.02%	14,709	Elevator, entry system, rekey bldg, alarm panel - warranties expired
REP. RES. RECEIVED	-	6,300	27,000	76.67%	20,700	Borrow RR funds to refund cable payments to residents
CASH FLOW AFTER CAPEX & REP R	(5,511)	(34,760)	1,575	2307.15%	36,335	Reimburse cable refunds from RR
repayment of operating advances	-	-	-	0.00%	-	
required return to owners	-	-	-	0.00%	-	
SURPLUS CASH FLOW	(5,511)	(34,760)	1,575	2307.15%	36,335	Temp 35% incr, reduce vac; correct construction systems error; refund cable paymen

C. E. Ware Towers, Inc.
A Non-Profit Corporation
Project Number 081-EE037

Financial Statements and Supplemental Information

Year Ended June 30, 2007

C. E. Ware Towers, Inc.
A Non-Profit Corporation
Project Number 081-EE037

Audited Financial Statements
and Supplemental Information

Year Ended June 30, 2007

Contents

Report on Audited Financial Statements and Supplementary Information.....	1
Lead Auditor and Independent Auditor	3
Audited Financial Statements	
Statement of Financial Position	4
Statement of Activities.....	6
Statement of Cash Flows.....	8
Notes to Financial Statements	10
Supplemental Information	
Supporting Data Required by HUD	15
Schedule of Expenditures of Federal Awards.....	18
Summary Schedule of Prior Audit Findings.....	19
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	21
Schedule of Findings and Questioned Costs.....	23
Certification of Project Owner	26
Management Agent Certification.....	27



ROWLAND & CARTER, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

TOM ROWLAND BENNY J. CARTER MICHAEL H. KASPAR

7953 Stage Hills Blvd., • Suite 110 • Memphis, Tennessee 38133

(901) 432-3000 • Fax (901) 432-3001

www.rowlandandcarter.com

Members of American Institute of Certified Public Accountants

Report on Audited Financial Statements and Supplementary Information

Independent Auditor's Report

To the Board of Directors and Officers
C. E. Ware Towers, Inc.

We have audited the accompanying statement of financial position of C. E. Ware Towers, Inc., (a nonprofit corporation), Project No. 081-EE037 as of June 30, 2007, and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of the Project's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of C. E. Ware Towers, Inc. as of June 30, 2007, and the changes in its net assets (deficit) and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2007, on our consideration of C. E. Ware Towers, Inc. internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information on pages 15 to 17 is presented for purposes of additional analysis and is not a required part of the basic financial statements of C. E. Ware Towers, Inc. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Rowland J. Carter

December 6, 2007

C. E. Ware Towers, Inc.
Project Number 081-EE037

Lead Auditor and Independent Auditor

June 30, 2007

Information relating to the lead auditor and independent auditor involved in the audit of C. E. Ware Towers, Inc., A Non-Profit Corporation, Project Number 081-EE037 as of June 30, 2007 is as follows:

Independent Auditor

Name: Rowland and Carter, CPA's, PLLC
Address: 7953 Stage Hills Blvd., Suite 110
Memphis, TN 38133
Telephone: (901) 432-3000
Federal Employer No: 62-1587083

Lead Auditor

Name: Michael H. Kaspar, CPA

Liabilities and Net Assets (Deficit)

Current Liabilities:

2110	Accounts payable	16,188
2121	Accrued payroll taxes payable	309
2123	Accrued management fee payable	3,625
2190	Miscellaneous current liabilities	<u>3,887</u>

Total Current Liabilities	<u>24,009</u>
---------------------------	---------------

Deposit and Prepayment Liabilities:

2191	Tenant deposits held in trust	11,846
2210	Prepaid rents	<u>2,294</u>
		<u>14,140</u>

Long-Term Liabilities:

2320	Mortgage payable	<u>3,548,300</u>
------	------------------	------------------

Total Liabilities	3,586,449
-------------------	-----------

3131	Net Assets (Deficit) - Unrestricted	<u>(105,530)</u>
------	-------------------------------------	------------------

Total Liabilities and Net Assets (Deficit)	<u>3,480,919</u>
--	------------------

C. E. Ware Towers, Inc.
Project Number 081-EE037

Statement of Activities

Year Ended June 30, 2007

Account No.

REVENUES

5120	Rent revenue - gross potential	96,580
5121	Tenant assistance payments	119,405
5190	Miscellaneous revenue	<u>63,940</u>

Total potential rent revenue 279,925

5220	Vacancies - apartments	<u>4,328</u>
------	------------------------	--------------

Net rental revenue 275,597

5410	Financial revenue - project operations	39
------	--	----

5440	Revenue from investments - replacement res.	<u>6</u>
------	---	----------

Total financial revenue 45

5910	Laundry and vending income	7,977
------	----------------------------	-------

5920	Tenant charge	1,211
------	---------------	-------

5990	Miscellaneous revenue	<u>610</u>
------	-----------------------	------------

Total other revenue 9,798

Total revenue 285,440

EXPENSES

6203	Conventions and meetings	244
------	--------------------------	-----

6210	Advertising and marketing	157
------	---------------------------	-----

6250	Other renting expenses	1,295
------	------------------------	-------

6311	Office expenses	11,891
------	-----------------	--------

6320	Management fee	42,354
------	----------------	--------

6330	Manager of superintendent salaries	8,365
------	------------------------------------	-------

6340	Legal expense	500
------	---------------	-----

6350	Audit expense	4,760
------	---------------	-------

6351	Bookkeeping fees/accounting service	7,696
------	-------------------------------------	-------

6370	Bad debts	25
------	-----------	----

6390	Miscellaneous administrative	<u>385</u>
------	------------------------------	------------

Total administrative expense 77,672

See notes to financial statements.

C. E. Ware Towers, Inc.
Project Number 081-EE037

Statement of Activities (continued)

Year Ended June 30, 2007

Account No.

6450	Electricity	59,716
6451	Water	3,064
6453	Sewer	<u>1,433</u>

Total utilities expense 64,213

6510	Payroll	23,057
6515	Supplies	3,061
6520	Contracts	21,803
6525	Garbage and trash removal	3,623
6530	Security payroll / contract	28,535
6546	Heating/cooling repairs	<u>1,350</u>

Total operating and maintenance expense 81,429

6711	Payroll taxes	2,841
6720	Property and liability insurance	32,329
6721	Fidelity bond insurance	1,800
6722	Workmen's compensation insurance	1,841
6723	Health insurance/other employee benefits	1,475
6790	Miscellaneous taxes, license, permits and insurance	<u>130</u>

Total taxes and insurance expense 40,416

Total costs of operations before depreciation 263,730

Change in net assets before depreciation 21,710

6600	Depreciation expense	<u>92,046</u>
------	----------------------	---------------

Change in net assets (deficit) (70,336)

Net Assets (Deficit) at Beginning of Year (35,194)

Net Assets (Deficit) at End of Year (105,530)

See notes to financial statements.

C. E. Ware Towers, Inc.
Project Number 081-EE037

Statement of Cash Flows

Year Ended June 30, 2007

Operating Activities

Rental income	276,061
Interest Income	45
Miscellaneous income	<u>9,798</u>
	285,904
Administrative	(19,832)
Management fees	(38,729)
Utilities	(64,213)
Salaries and wages	(31,422)
Operating and maintenance	(58,372)
Property insurance	(23,262)
Miscellaneous taxes and insurance	(7,778)
Tenant deposits held in trust	<u>(2)</u>
Net cash provided by operating activities	<u>42,294</u>

Investing Activities

Net change in replacement reserve	(7,793)
Acquisition of fixed assets	<u>(184,842)</u>
Net cash used in investing activities	<u>(192,635)</u>

Financing Activities

Mortgage proceeds	<u>177,700</u>
Net cash provided by financing activities	<u>177,700</u>
Net increase in cash and cash equivalents	27,359
Cash and cash equivalents at beginning of year	<u>1,193</u>
Cash and cash equivalents at end of year	<u><u>28,552</u></u>

See notes to financial statements.

C. E. Ware Towers, Inc.
Project Number 081-EE037

Statement of Cash Flows (continued)

Year Ended June 30, 2007

Cash Flows From Operating Activities

Change in net assets	(70,336)
Adjustments to reconcile decrease in net assets to net cash provided by rental operating activities:	
Depreciation	92,046
Decrease (increase) in:	
Tenant accounts receivable	(1,528)
Accounts receivable - other	(302)
Tenant security deposits - funded	(10,145)
Increase (decrease) in:	
Accounts payable	16,188
Accrued liabilities	3,934
Tenant security deposits - liability	10,143
Prepaid rent	<u>2,294</u>
Net cash provided by operating activities	<u><u>42,294</u></u>

See notes to financial statements.

C. E. Ware Towers, Inc.
Project Number 081-EE037

Notes to Financial Statements

June 30, 2007

1. Significant Accounting Policies

Organization and Regulation

C. E. Ware Towers, Inc. (the Company) is a not-for-profit general welfare corporation organized to construct and operate an apartment complex in Memphis, Tennessee. The complex, which consists of 56 units, was organized under Section 202 of the National Housing Act and is subject to Revised Section 8 Regulations in regard to the investment of tenant security deposits, and the Replacement Reserves. This project does not generate Surplus Cash, only residual receipts. Such projects are regulated by the United States Department of Housing and Urban Development (HUD) as to rent charges and operating methods.

None of the Company's net assets are subject to donor-imposed restrictions. Accordingly, all net assets are accounted for as unrestricted net assets under SFAS No. 117.

HUD exercises control over the Company through provisions of a Regulatory Agreement (the Agreement). The Agreement restricts the Company, without prior written approval from HUD, from encumbering, acquiring, altering or disposing of land, buildings, or equipment; using the property for any purpose other than the use originally intended; engaging in any other business or activity; and disbursing funds for payment of dividends, compensation to officers or directors, or any purpose other than reasonable operating expenses. The Agreement also stipulates that HUD shall control rental rates, rates of return on investment, and the method of operation. In addition, the Agreement requires deposits on a monthly basis into reserve funds for replacement.

Under the Regulatory Agreement, the Company is required to set aside Replacement Reserve deposits for the replacement of property and other project expenditures approved by HUD. HUD - restricted deposits, are held in separate accounts and generally are not available for operating purposes.

Basis of Presentation

The organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. All the net assets of the organization are unrestricted as of June 30, 2007. Furthermore, information is required to segregate program service expenses from support expenses. Support expenses include cost for services such as public relations, accounting, human resources, office services and computer systems.

C. E. Ware Towers, Inc.
Project Number 081-EE037

Notes to Financial Statements (continued)

1. Significant Accounting Policies - continued

Cash Equivalents

The Project considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents.

Property and Equipment

The building and other property are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings and building improvements	40	years
Furniture - project/tenant use	5	years
Office furniture and equipment	7	years

Land is stated at cost.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures.

Income Taxes

No provision or benefit for income taxes has been included in these financial statements since the entity is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Management Fee

TESCO Properties, Inc. became the project's management agent beginning March 1, 2007. For the period March 1, 2007 to June 30, 2007, TESCO Properties, Inc. was paid a percentage (11.45%) of cash receipts as a management fee. The previous management agent, Beth-Reach, Inc., ceased management responsibilities effective February 28, 2007. Beth-Reach, Inc. was paid a percentage (12.15%) of cash receipts as a management fee for the period July 1, 2006 to February 28, 2007.

C. E. Ware Towers, Inc.
Project Number 081-EE037

Notes to Financial Statements (continued)

Functional Expenses

The costs of providing various programs and other activities are summarized on a functional basis as follows:

Program Services	
HUD-assisted elderly housing project	304,731
Supporting Services	
General and administrative	51,045
Fund raising	0
	<u>355,776</u>

General and administrative consists of allocated costs as follows:

Management fees	25,412
Office supplies	11,891
Conventions and meetings	244
Legal	500
Audit expense	4,760
Advertising and marketing	157
Bookkeeping and accounting service	7,696
Miscellaneous	385
	<u>51,045</u>

2. Mortgage Payable – Capital Advance Construction Note

The cost of the Company's project is financed by a capital advance construction note that has a maximum fundable amount of \$3,548,300. The total amount advanced as of June 30, 2006 was \$3,370,600. During the year ended June 30, 2007 an additional \$177,700 was advanced on the capital advance loan to bring the year end balance to \$3,548,300. The note will bear no interest and repayment will not be required so long as the housing remains available for very low-income elderly persons. In the event of default, the entire principal amount shall at once become due and payable without notice. Interest per annum at a rate of 5.375% shall be payable on demand with respect to the payment of principal upon default.

The carrying amount of the note payable approximates fair value as of June 30, 2007.

3. Accounts Payable - Construction

The project incurred costs related to the construction of the building which are paid from the proceeds of Capital Advance Program. At June 30, 2006 a payable balance of \$197,429 was outstanding. The payables outstanding were all paid by June 30, 2007.

C. E. Ware Towers, Inc.
Project Number 081-EE037

Notes to Financial Statements (continued)

4. HUD Restricted Deposits

Under the Regulatory Agreement, the Project is required to set aside amounts for the replacement of property and other project expenditures approved by HUD. Use of these funds is contingent upon HUD's prior written approval. HUD-restricted deposits, which total \$7,793 at June 30, 2007, are held in separate accounts and generally are not available for operating purposes.

5. Unrestricted Net Assets

None of the Project's net assets are subject to donor-imposed restrictions. Accordingly, all net assets are accounted for as unrestricted net assets under SFAS No. 117.

6. Rental Income and Housing Assistance Payments

Rental agreements are generally for one-year periods and are accounted for as operating leases. Rental income is reported as earned over the term of the lease. The Company participates in a Housing Assistance Payment program (Section 8) administered by the U.S. Department of Housing and Urban Development (HUD). The Company has an annual contribution contract with HUD, which must be renewed every five years. Under the terms of the contract, the Company is paid the difference between negotiated contract rent and the amount of rent paid by the tenants.

7. Related Party Transactions

The previous president of C.E. Ware Towers, Inc., Rev. C.E. Ware, was also president of Beth-Reach, Inc., the project's management agent from July 1, 2006 to February 28, 2007. Beth-Reach, Inc. was paid a percentage (12.15%) of cash receipts as a management fee. The fee paid to Beth-Reach, Inc., totaled \$31,512. A new non-related management entity assumed management responsibility on March 1, 2007.

8. Concentrations of Credit Risk

The Company's credit risks relate to cash and cash equivalents and accounts receivable. Cash and cash equivalents are primarily held in bank accounts insured by the FDIC. The Project maintains cash balances at banks located in Memphis, Tennessee. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. On June 30, 2007, the Project's cash balances were below \$100,000 in each bank. Accounts receivable consists of amounts due from tenants and the United States Department of Housing and Urban Development. The Company performs continual credit evaluations of its tenants and does not consider an allowance for doubtful accounts to be necessary.

C. E. Ware Towers, Inc.
Project Number 081-EE037

Notes to Financial Statements (continued)

9. Current Vulnerability Due to Certain Concentrations

The Corporation's sole asset is a 56-unit apartment complex. The Corporation's operations are concentrated in the multifamily real estate market. In addition, the Corporation operates in a heavily regulated environment. The operations of the Corporation are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

C. E. Ware Towers, Inc.
Project Number 081-EE037

Supporting Data Required By HUD

June 30, 2007

Reserve for Replacements

In accordance with the provision of the Regulatory Agreement, restricted cash is to be deposited for the use of replacement of property with the approval of HUD as follows:

Balance, July 1, 2006	-0-
Close out minimum fund account	1,103
Monthly deposits (\$1,130 X 2) + 1,607	3,867
Repayment per cost certification (\$1,098 + \$1,725)	2,823
Interest income	6
	<u>7,799</u>
Withdrawals:	
Bank fee	<u>(6)</u>
Balance, June 30, 2007	<u>7,793</u>

Residual Receipts

None

Miscellaneous Current Assets

Receivable due to the Replacement Reserve account	<u>3,887</u>
---	--------------

Miscellaneous Current Liabilities

Payable due to the Replacement Reserve account	<u>3,887</u>
--	--------------

Miscellaneous Rent Revenue

Collections from previous period	<u>63,940</u>
----------------------------------	---------------

Miscellaneous Other Revenue

Beautyshop fees	<u>610</u>
-----------------	------------

C. E. Ware Towers, Inc.
Project Number 081-EE037

Supporting Data Required By HUD (continued)

June 30, 2007

Computation of Surplus Cash, Distributions and Residual Receipts

Cash

Cash (Accounts 1110, 1120, 1191, 1192)	40,400
Tenant subsidy vouchers due for the period covered by financial statement	302
Total Cash	<u>40,702</u>

Current Obligations

Accrued mortgage interest payable	
Delinquent mortgage principal payments	
Delinquent deposits of reserve for replacement	
Accounts payable (Due within 30 days)	16,188
Loans and notes payable (Due within 30 days)	
Deficient tax, insurance or MIP escrow deposits	23,622
Accrued expenses (not escrowed)	3,934
Prepaid rents (Account 2210)	2,294
Tenant security deposits liability (Account 2191)	11,846
Other- Unpaid monthly Replacement Reserve deposits	14,245
Unpaid replacement reserve deposits	3,887
Total Current Obligations	<u>76,016</u>
Surplus Cash (Deficiency)	<u><u>(35,314)</u></u>

C. E. Ware Towers, Inc.
Project Number 081-EE037

Supporting Data Required By HUD (continued)

June 30, 2007

Changes in Property and Equipment

	Assets			Accumulated Depreciation			Net Book Value Jun. 30, '07
	Balance Jul. 1, '06	Additions (Disposals)	Balance Jun. 30, '07	Balance Jul. 1, '06	Depreci- ation	Balance Jun. 30, '07	
1410 Land	75,000	0	75,000	0	0	0	75,000
1420 Buildings	3,450,639	0	3,450,639	28,755	86,266	115,021	3,335,618
1450 Furniture for project tenant use	0	6,473	6,473	0	1,295	1,295	5,178
1465 Office furniture & equipment	18,315	0	18,315	2,617	4,485	7,102	11,213
	<u>3,543,954</u>	<u>6,473</u>	<u>3,550,427</u>	<u>31,372</u>	<u>92,046</u>	<u>123,418</u>	<u>3,427,009</u>

Fixed assets additions:

Washers (6) & dryers (6) 6,473

C. E. Ware Towers, Inc.
Project Number 081-EE037

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development		
Section 202 Direct Loan	14.157	3,548,300
Section 8 Housing Assistance Programs	14.856	<u>183,345</u>
		<u>3,731,645</u>

Note: The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

C. E. Ware Towers, Inc.
Project Number 081-EE037

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2007

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FINDING NO. 06-1: Section 202, Direct Loan CFDA 14.157

Condition: Owner failed to make the required monthly deposits to the Replacement Reserve account.

Recommendation: The responsible accounting staff should be reminded of the procedures in place to ensure that Replacement Reserve deposits are made to the Replacement Reserve account in a timely manner for property replacements.

Current Status: The shortage in the Replacement Reserve account of the four (4) deposits not made from the previous period were not funded as of June 30, 2007. The Replacement Reserve account remains underfunded by \$4,528 (\$1,132 X 4) for the deficient June 30, 2006 fiscal year deposits.



ROWLAND & CARTER, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

TOM ROWLAND BENNY J. CARTER MICHAEL H. KASPAR

7953 Stage Hills Blvd., • Suite 110 • Memphis, Tennessee 38133

(901) 432-3000 • Fax (901) 432-3001

www.rowlandandcarter.com

Members of American Institute of Certified Public Accountants

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To the Board of Directors and Officers
C. E. Ware Towers, Inc.

We have audited the financial statements of C. E. Ware Towers, Inc., HUD Project No. 081-EE037, as of and for the year ended June 30, 2007, and have issued our report thereon dated December 6, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered C. E. Ware Towers, Inc.'s, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether C. E. Ware Towers, Inc.'s, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedules of Findings and Questioned Costs as item 07-1 and 07-2.

This report is intended solely for the information and use of the audit committee, board of directors, management, others within the organization, the Department of Housing and Urban Development and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

December 6, 2007

Rowland & Carter



ROWLAND & CARTER, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

TOM ROWLAND BENNY J. CARTER MICHAEL H. KASPAR

7953 Stage Hills Blvd., • Suite 110 • Memphis, Tennessee 38133

(901) 432-3000 • Fax (901) 432-3001

www.rowlandandcarter.com

Members of American Institute of Certified Public Accountants

**Report on Compliance with
Requirements Applicable to Each Major Program and on Internal
Control Over Compliance In Accordance with OMB Circular A-133**

Independent Auditor's Report

To the Board of Directors and Officers
C. E. Ware Towers, Inc.

Compliance

We have audited the compliance of C. E. Ware Towers, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. C. E. Ware Towers, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of C. E. Ware Towers, Inc.'s management. Our responsibility is to express an opinion on C. E. Ware Towers, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about C. E. Ware Towers, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on C. E. Ware Towers, Inc.'s compliance with those requirements.

In our opinion, C. E. Ware Towers, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with these requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 07-1 and 07-2.

Internal Control Over Compliance

The management of C. E. Ware Towers, Inc., is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered C. E. Ware Towers, Inc., internal control over compliance with requirements that could have a direct and material effect on a major federal program (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees within a timely period, in the normal course of performing their assigned functions, to prevent or detect noncompliance with applicable requirements of laws, regulations, contracts and grants that would have a direct and material effect on a major federal program. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants such that there is more than a remote likelihood that the Organization's noncompliance that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with applicable requirements of laws, regulations, contracts and grants in relation to a major federal program will not be prevented or detected by the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the fourth paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, board of directors, management, others within the organization, the Department of Housing and Urban Development and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties

Rawland & Carter

December 6, 2007

C. E. Ware Towers, Inc.
Project Number 081-EE037

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

Part I - Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of C. E. Ware Towers, Inc.
2. No material weaknesses were identified during the audit of the financial statements.
3. An instance of noncompliance material to the financial statements of C. E. Ware Towers, Inc. was disclosed during the audit.
4. No material weaknesses were identified during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for C. E. Ware Towers, Inc. expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Section 202 Direct Loan	14.157
8. The threshold for distinguishing Types A and B programs was \$500,000.
9. C. E. Ware Towers, Inc. does not qualify as a low-risk auditee.

Part II - Findings - Financial Statements Audit

None

C. E. Ware Towers, Inc.
Project Number 081-EE037

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2007

Part III – Findings and Questioned Costs - Major Federal Award Programs Audit

Finding – 07-1: Monthly Replacement Reserve Deposits

1. Program – Section 202 Direct Loan, CFDA 14.157
2. Population size
Number: 12
Dollar amount: \$13,584
3. Items Tested
Number: 12
Dollar amount: \$13,584
4. Items not in compliance
Number: 8 and a partial
Dollar amount: \$9,717
5. Condition – The owner failed to make the required monthly deposits to the Replacement Reserve account.
6. Effect – Funds were not available for the replacement of property and project improvements.
7. Cause – Procedures in place to ensure that the required deposits are made each month to the Replacement Reserve account were not followed.
8. Recommendation – The responsible accounting staff should be reminded of the procedures in place to ensure that deposits are made each month to the Replacement Reserve account for property replacements.
9. Comment – Management agrees with the finding and the accounting staff has been reminded of the importance of ensuring that deposits are made on a monthly basis to the Replacement Reserve account. New management was put in place March 1, 2007 and have implemented procedures to make sure deposits are made on a timely basis.

C. E. Ware Towers, Inc.
Project Number 081-EE037

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2007

Part III – Findings and Questioned Costs - Major Federal Award Programs Audit

Finding – 07-2: Replacement Reserve Deposits

1. Program – Section 202 Direct Loan, CFDA 14.157
2. Population size
Number: 6
Dollar amount: \$6,709
3. Items Tested
Number: 6
Dollar amount: \$6,709
4. Items not in compliance
Number: 4
Dollar amount: \$3,887
5. Condition – The owner failed to make the required deposits to the Replacement Reserve account.
6. Effect – Funds were not available for the replacement of property and project improvements.
7. Cause – Procedures in place to ensure that the required deposits are made to the Replacement Reserve account were not followed.
8. Recommendation – The responsible accounting staff should be reminded of the procedures in place to ensure that deposits are made to the Replacement Reserve account for property replacements.
9. Comment – Management agrees with the finding and the accounting staff has been reminded of the importance of ensuring that deposits are made to the Replacement Reserve account.

C. E. Ware Towers, Inc.
Project Number 081-EE037

Certification of Project Owner

June 30, 2007

We hereby certify that we have examined the accompanying financial statements and supplemental data of C. E. Ware Towers, Inc., 2171 Judicial Drive, Suite 200, Germantown, Tennessee 38138 (901) 759-1855, Employer Identification Number 30-0134249 and, to the best of our knowledge and belief, the same is complete and accurate.

Marilyn Halfacre, Preside.
Officer

Alice Harris, Sec'y
Officer

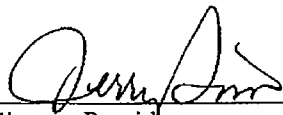
C. E. Ware Towers, Inc.
Project Number 081-EE037

Management Agent Certification

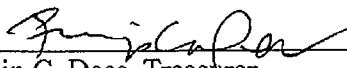
June 30, 2007

We hereby certify that we have examined the accompanying financial statements and supplemental data of C. E. Ware Towers, Inc., Memphis, Tennessee, and to the best of our knowledge and belief, the same is complete and accurate.

TESCO Properties, Inc. 62-1073407
Management Agent
Property Manager: Larry Sisson
2171 Judicial Drive, Suite 200
Germantown, TN 38138
(901) 759-1855



Jerry Sisson, President



Philip C. Dees, Treasurer

C. E. Ware Towers, Inc.
A Non-Profit Corporation
Project Number 081-EE037

Financial Statements and Supplemental Information

For the Period February 21, 2006 to June 30, 2006

C. E. Ware Towers, Inc.
A Non-Profit Corporation
Project Number 081-EE037

Audited Financial Statements
and Supplemental Information

For the Period February 21, 2006 to June 30, 2006

Contents

Report on Audited Financial Statements and Supplementary Information.....	1
Lead Auditor and Independent Auditor	3
Audited Financial Statements	
Statement of Financial Position	4
Statement of Activities	6
Statement of Cash Flows.....	8
Notes to Financial Statements	10
Supplemental Information	
Supporting Data Required by HUD	14
Schedule of Expenditures of Federal Awards	17
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	19
Schedule of Findings and Questioned Costs.....	21
Certification of Project Owner.....	23
Management Agent Certification.....	24



ROWLAND & CARTER, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

TOM ROWLAND BENNY J. CARTER MICHAEL H. KASPAR

7953 Stage Hills Blvd., • Suite 110 • Memphis, Tennessee 38133

(901) 432-3000 • Fax (901) 432-3001

www.rowlandandcarter.com

Members of American Institute of Certified Public Accountants

Report on Audited Financial Statements and Supplementary Information

Independent Auditor's Report

To the Board of Directors and Officers
C. E. Ware Towers, Inc.

We have audited the accompanying statement of financial position of C. E. Ware Towers, Inc., (a nonprofit corporation), Project No. 081-EE037 as of June 30, 2006, and the related statements of activities, and cash flows for the period February 21, 2006 to June 30, 2006. These financial statements are the responsibility of the Project's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of C. E. Ware Towers, Inc. as of June 30, 2006, and the changes in its net assets (deficit) and its cash flows for the period February 21, 2006 to June 30, 2006 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2007, on our consideration of C. E. Ware Towers, Inc. internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information on pages 14 to 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements of C. E. Ware Towers, Inc. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Rawland & Carter

October 24, 2007

C. E. Ware Towers, Inc.
Project Number 081-EE037

Lead Auditor and Independent Auditor

June 30, 2006

Information relating to the lead auditor and independent auditor involved in the audit of C. E. Ware Towers, Inc., A Non-Profit Corporation, Project Number 081-EE037 as of June 30, 2006 is as follows:

Independent Auditor

Name: Rowland and Carter, CPA's, PLLC
Address: 7953 Stage Hills Blvd., Suite 110
Memphis, TN 38133
Telephone: (901) 432-3000
Federal Employer No: 62-1587083

Lead Auditor

Name: Michael H. Kaspar, CPA

Liabilities and Net Assets (Deficit)**Current Liabilities:**

2111	Accounts payable - construction	197,429
2190	Miscellaneous current liabilities	<u>8,434</u>
	Total Current Liabilities	<u>205,863</u>

Deposit and Prepayment Liabilities:

2191	Tenant deposits held in trust	<u>1,703</u>
------	-------------------------------	--------------

Long-Term Liabilities:

2320	Mortgage payable	<u>3,370,600</u>
------	------------------	------------------

	Total Liabilities	3,578,166
--	-------------------	-----------

3131	Net Assets (Deficit) - Unrestricted	<u>(35,194)</u>
------	-------------------------------------	-----------------

	Total Liabilities and Net Assets (Deficit)	<u><u>3,542,972</u></u>
--	--	-------------------------

C. E. Ware Towers, Inc.
Project Number 081-EE037

Statement of Activities

For the Period February 21, 2006 to June 30, 2006

Account No.

REVENUES

5120	Rent revenue - gross potential	26,080
5121	Tenant assistance payments	<u>38,820</u>

Total potential rent revenue 64,900

5220	Vacancies - apartments	<u>25,983</u>
------	------------------------	---------------

Net rental revenue 38,917

5910	Laundry and vending income	<u>1,282</u>
------	----------------------------	--------------

Total other revenue 1,282

Total revenue 40,199

EXPENSES

6203	Conventions and meetings	1,756
6311	Office expenses	4,533
6320	Management fee	<u>2,727</u>

Total administrative expense 9,016

6450	Electricity	9,528
6451	Water	<u>355</u>

Total utilities expense 9,883

See notes to financial statements.

C. E. Ware Towers, Inc.
Project Number 081-EE037

Statement of Activities (continued)

For the Period February 21, 2006 to June 30, 2006

Account No.

6515	Supplies	553
6520	Contracts	7,081
6525	Garbage and trash removal	1,445
6530	Security payroll / contract	14,637
6570	Vehicle and maintenance equipment operation & repair	<u>100</u>
	Total operating and maintenance expense	<u>23,816</u>
6711	Payroll taxes	<u>1,306</u>
	Total costs of operations before depreciation	<u>44,021</u>
	Change in net assets before depreciation	(3,822)
6600	Depreciation expense	<u>31,372</u>
	Change in net assets (deficit)	(35,194)
	Net Assets (Deficit) at Beginning of Year	<u>0</u>
	Net Assets (Deficit) at End of Year	<u>(35,194)</u>

See notes to financial statements.

C. E. Ware Towers, Inc.
Project Number 081-EE037

Statement of Cash Flows

For the Period February 21, 2006 to June 30, 2006

Operating Activities

Rental income	38,917
Miscellaneous income	1,282
	<u>40,199</u>
Administrative	(6,289)
Management fees	(2,727)
Utilities	(9,883)
Salaries and wages	(12,077)
Operating and maintenance	(11,739)
Miscellaneous taxes and insurance	<u>(1,306)</u>
Net cash used in operating activities	<u>(3,822)</u>

Investing Activities

Acquisition of fixed assets	<u>(340,850)</u>
Net cash used in investing activities	<u>(340,850)</u>

Financing Activities

Mortgage proceeds	372,765
Repayment of advances	<u>(27,000)</u>
Net cash provided by financing activities	<u>345,765</u>
Net increase in cash and cash equivalents	1,093
Cash and cash equivalents at beginning of year	<u>100</u>
Cash and cash equivalents at end of year	<u><u>1,193</u></u>

See notes to financial statements.

C. E. Ware Towers, Inc.
Project Number 081-EE037

Statement of Cash Flows (continued)

For the Period February 21, 2006 to June 30, 2006

Cash Flows From Operating Activities

Change in net assets	(35,194)
Adjustments to reconcile decrease in net assets to net cash used in rental operating activities:	
Depreciation	31,372
Decrease (increase) in:	
Tenant security deposits - funded	(1,703)
Increase (decrease) in:	
Tenant security deposits - liability	<u>1,703</u>
Net cash provided by operating activities	<u><u>(3,822)</u></u>

See notes to financial statements.

C. E. Ware Towers, Inc.
Project Number 081-EE037

Notes to Financial Statements

June 30, 2006

1. Significant Accounting Policies

Organization and Regulation

C. E. Ware Towers, Inc. (the Company) is a not-for-profit general welfare corporation organized to construct and operate an apartment complex in Memphis, Tennessee. The complex, which consists of 56 units, was organized under Section 202 of the National Housing Act and is subject to Revised Section 8 Regulations in regard to the investment of tenant security deposits, and the Replacement Reserves. This project does not generate Surplus Cash, only residual receipts. Such projects are regulated by the United States Department of Housing and Urban Development (HUD) as to rent charges and operating methods.

None of the Company's net assets are subject to donor-imposed restrictions. Accordingly, all net assets are accounted for as unrestricted net assets under SFAS No. 117.

HUD exercises control over the Company through provisions of a Regulatory Agreement (the Agreement). The Agreement restricts the Company, without prior written approval from HUD, from encumbering, acquiring, altering or disposing of land, buildings, or equipment; using the property for any purpose other than the use originally intended; engaging in any other business or activity; and disbursing funds for payment of dividends, compensation to officers or directors, or any purpose other than reasonable operating expenses. The Agreement also stipulates that HUD shall control rental rates, rates of return on investment, and the method of operation. In addition, the Agreement requires deposits on a monthly basis into reserve funds for replacement.

Under the Regulatory Agreement, the Company is required to set aside Replacement Reserve deposits for the replacement of property and other project expenditures approved by HUD. HUD - restricted deposits, are held in separate accounts and generally are not available for operating purposes.

Basis of Presentation

The organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. All the net assets of the organization are unrestricted as of June 30, 2006. Furthermore, information is required to segregate program service expenses from support expenses. Support expenses include cost for services such as public relations, accounting, human resources, office services and computer systems.

C. E. Ware Towers, Inc.
Project Number 081-EE037

Notes to Financial Statements (continued)

1. Significant Accounting Policies - continued

Cash Equivalents

The Project considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents.

Property and Equipment

The building and other property are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings and building improvements	40	years
Office furniture and equipment	7	years

Land is stated at cost.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures.

Income Taxes

No provision or benefit for income taxes has been included in these financial statements since the entity is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Management Fee

Beth-Reach, Inc., the project's management agent, is paid a percentage (12.15%) of cash receipts as a management fee.

Functional Expenses

The costs of providing various programs and other activities are summarized on a functional basis as follows:

Program Services	
HUD-assisted elderly housing project	67,468
Supporting Services	
General and administrative	7,925
Fund raising	
	<u>75,393</u>

C. E. Ware Towers, Inc.
Project Number 081-EE037

Notes to Financial Statements (continued)

Functional Expenses (continued)

General and administrative consists of allocated costs as follows:

Management fees	1,636
Office supplies	4,533
Conventions and meetings	<u>1,756</u>
	<u>7,925</u>

2. Mortgage Payable – Capital Advance Construction Note

The cost of the Company's project is financed by a capital advance construction note that has a maximum fundable amount of \$3,548,300. The total amount advanced as of June 30, 2006 is \$3,370,600. The note will bear no interest and repayment will not be required so long as the housing remains available for very low-income elderly persons. In the event of default, the entire principal amount shall at once become due and payable without notice. Interest per annum at a rate of 5.375% shall be payable on demand with respect to the payment of principal upon default.

The carrying amount of the note payable approximates fair value as of June 30, 2006.

3. Accounts Payable - Construction

The project incurred costs related to the construction of the building which are paid from the proceeds of Capital Advance Program. The following are the costs unpaid as of June 30, 2006. These costs were paid subsequent to June 30, 2006 from draws on the Capital Advance Program.

Barnett Naylor	143,560
Rowland & Carter, CPAs, PLLC – Cost cert. audit	6,000
Little & Associates – Architect's supervision	(2,797)
Betty Shaw – Consultant	25,797
The Lowrance Law Firm - Legal	2,750
Sylvester Butler – Neighborhood Network	5,093
Memphis Light, Gas & Water – Deposit	<u>17,026</u>
	<u>197,429</u>

4. HUD Restricted Deposits

Under the Regulatory Agreement, the Project is required to set aside amounts for the replacement of property and other project expenditures approved by HUD. Use of these funds is contingent upon HUD's prior written approval. No Replacement Reserve deposits were made as of June 30, 2006.

C. E. Ware Towers, Inc.
Project Number 081-EE037

Notes to Financial Statements (continued)

5. Unrestricted Net Assets

None of the Project's net assets are subject to donor-imposed restrictions. Accordingly, all net assets are accounted for as unrestricted net assets under SFAS No. 117.

6. Rental Income and Housing Assistance Payments

Rental agreements are generally for one-year periods and are accounted for as operating leases. Rental income is reported as earned over the term of the lease. The Company participates in a Housing Assistance Payment program (Section 8) administered by the U.S. Department of Housing and Urban Development (HUD). The Company has an annual contribution contract with HUD, which must be renewed every five years. Under the terms of the contract, the Company is paid the difference between negotiated contract rent and the amount of rent paid by the tenants.

7. Related Party Transactions

The previous president of C.E. Ware Towers, Inc., Rev. C.E. Ware, was also president of Beth-Reach, Inc., the project's management agent. Beth-Reach, Inc. was paid a percentage (12.15%) of cash receipts as a management fee. The fee paid to Beth-Reach, Inc., totaled \$2,727. A new non-related management entity assumed management responsibility on March 1, 2007.

8. Concentrations of Credit Risk

The Company's credit risks relate to cash and cash equivalents and accounts receivable. Cash and cash equivalents are primarily held in bank accounts insured by the FDIC. The Project maintains cash balances at banks located in Memphis, Tennessee. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. On June 30, 2006, the Project's cash balances were below \$100,000 in each bank. Accounts receivable consists of amounts due from tenants and the United States Department of Housing and Urban Development. The Company performs continual credit evaluations of its tenants and does not consider an allowance for doubtful accounts to be necessary.

9. Current Vulnerability Due to Certain Concentrations

The Corporation's sole asset is a 56-unit apartment complex. The Corporation's operations are concentrated in the multifamily real estate market. In addition, the Corporation operates in a heavily regulated environment. The operations of the Corporation are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

C. E. Ware Towers, Inc.
Project Number 081-EE037

Supporting Data Required By HUD

June 30, 2006

Reserve for Replacements

In accordance with the provision of the Regulatory Agreement, restricted cash is to be deposited for the use of replacement of property with the approval of HUD. The Regulatory Agreement stipulates that the monthly deposit is to be \$1,132. No deposits were made as of June 30, 2006.

Residual Receipts

None

Miscellaneous Current Assets

Receivable due to the Construction account	1,725
Receivable due to the Replacement Reserve account	6,709
	<u>8,434</u>

Miscellaneous Current Liabilities

Payable due to the Construction account	1,725
Payable due to the Repalacement Reserve account	6,709
	<u>8,434</u>

C. E. Ware Towers, Inc.
Project Number 081-EE037

Supporting Data Required By HUD (continued)

June 30, 2006

Computation of Surplus Cash, Distributions and Residual Receipts

Cash

Cash (Accounts 1110, 1120, 1191, 1192)	2,896
Tenant subsidy vouchers due for the period covered by financial statement	
Total Cash	<u>2,896</u>

Current Obligations

Accrued mortgage interest payable	
Delinquent mortgage principle payments	
Delinquent deposits of reserve for replacement	
Accounts payable (Due within 30 days)	
Loans and notes payable (Due within 30 days)	
Accrued expenses (not escrowed)	8,434
Prepaid rents (Account 2210)	
Tenant security deposits liability (Account 2191)	1,703
Other- Four (4) months of unpaid Replacement Reserve deposits (\$1,132 X 4)	4,528
Total Current Obligations	<u>14,665</u>
Surplus Cash (Deficiency)	<u>(11,769)</u>

C. E. Ware Towers, Inc.
Project Number 081-EE037

Supporting Data Required By HUD (continued)

June 30, 2006

Changes in Property and Equipment

	Assets			Accumulated Depreciation			Net Book Value Jun. 30, '06
	Balance Feb. 21, '06	Additions (Disposals)	Balance Jun. 30, '06	Balance Feb. 21, '06	Depreci- ation	Balance Jun. 30, '06	
1410 Land	75,000		75,000			0	75,000
1420 Buildings	3,450,639		3,450,639		28,755	28,755	3,421,884
1465 Office furniture & equipment	18,315		18,315		2,617	2,617	15,698
	<u>3,543,954</u>	<u>0</u>	<u>3,543,954</u>	<u>0</u>	<u>31,372</u>	<u>31,372</u>	<u>3,512,582</u>

C. E. Ware Towers, Inc.
Project Number 081-EE037

Schedule of Expenditures of Federal Awards

For the Period February 21, 2006 to June 30, 2006

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development		
Section 202 Direct Loan	14.157	3,370,600
Section 8 Housing Assistance Programs	14.856	<u>0</u>
		<u>3,370,600</u>

Note: The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.



ROWLAND & CARTER, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

TOM ROWLAND BENNY J. CARTER MICHAEL H. KASPAR

7953 Stage Hills Blvd., • Suite 110 • Memphis, Tennessee 38133

(901) 432-3000 • Fax (901) 432-3001

www.rowlandandcarter.com

Members of American Institute of Certified Public Accountants

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To the Board of Directors and Officers
C. E. Ware Towers, Inc.

We have audited the financial statements of C. E. Ware Towers, Inc., HUD Project No. 081-EE037, as of and for the period February 21, 2006 to June 30, 2006, and have issued our report thereon dated October 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered C. E. Ware Towers, Inc.'s, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether C. E. Ware Towers, Inc.'s, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedules of Findings and Questioned Costs as item 06-1.

This report is intended solely for the information and use of the audit committee, board of directors, management, others within the organization, the Department of Housing and Urban Development and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

October 24, 2007

Rowland & Carter



ROWLAND & CARTER, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

TOM ROWLAND BENNY J. CARTER MICHAEL H. KASPAR

7953 Stage Hills Blvd., • Suite 110 • Memphis, Tennessee 38133

(901) 432-3000 • Fax (901) 432-3001

www.rowlandandcarter.com

Members of American Institute of Certified Public Accountants

**Report on Compliance with
Requirements Applicable to Each Major Program and on Internal
Control Over Compliance In Accordance with OMB Circular A-133**

Independent Auditor's Report

To the Board of Directors and Officers
C. E. Ware Towers, Inc.

Compliance

We have audited the compliance of C. E. Ware Towers, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the period February 21, 2006 to June 30, 2006. C. E. Ware Towers, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of C. E. Ware Towers, Inc.'s management. Our responsibility is to express an opinion on C. E. Ware Towers, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about C. E. Ware Towers, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on C. E. Ware Towers, Inc.'s compliance with those requirements.

In our opinion, C. E. Ware Towers, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the period February 21, 2006 to June 30, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with these requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as item 06-1.

Internal Control Over Compliance

The management of C. E. Ware Towers, Inc., is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered C. E. Ware Towers, Inc., internal control over compliance with requirements that could have a direct and material effect on a major federal program (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees within a timely period, in the normal course of performing their assigned functions, to prevent or detect noncompliance with applicable requirements of laws, regulations, contracts and grants that would have a direct and material effect on a major federal program. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants such that there is more than a remote likelihood that the Organization's noncompliance that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with applicable requirements of laws, regulations, contracts and grants in relation to a major federal program will not be prevented or detected by the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the fourth paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, board of directors, management, others within the organization, the Department of Housing and Urban Development and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties

Rawland & Carter

October 24, 2007

C. E. Ware Towers, Inc.
Project Number 081-EE037

Schedule of Findings and Questioned Costs

For the Period February 21, 2006 to June 30, 2006

Part I - Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of C. E. Ware Towers, Inc.
2. No material weaknesses were identified during the audit of the financial statements.
3. An instance of noncompliance material to the financial statements of C. E. Ware Towers, Inc. was disclosed during the audit.
4. No material weaknesses were identified during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for C. E. Ware Towers, Inc. expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Section 202 Direct Loan	14.157
8. The threshold for distinguishing Types A and B programs was \$500,000.
9. C. E. Ware Towers, Inc. does not qualify as a low-risk auditee.

Part II - Findings - Financial Statements Audit

None

C. E. Ware Towers, Inc.
Project Number 081-EE037

Schedule of Findings and Questioned Costs (Continued)

For the Period February 21, 2006 to June 30, 2006

Part III – Findings and Questioned Costs - Major Federal Award Programs Audit

Finding – 06-1: Replacement Reserve Deposits

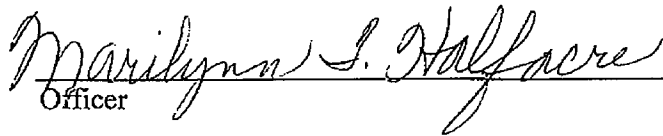
1. Program – Section 202 Direct Loan, CFDA 14.157
2. Population size
Number: 4
Dollar amount: \$4,528
3. Items Tested
Number: 4
Dollar amount: \$4,528
4. Items not in compliance
Number: 4
Dollar amount: \$4,528
5. Condition – The owner failed to make the required monthly deposits to the Replacement Reserve account.
6. Effect – Funds were not available for the replacement of property and project improvements.
7. Cause – Procedures in place to ensure that the required deposits are made each month to the Replacement Reserve account were not allowed.
8. Recommendation – The responsible accounting staff should be reminded of the procedures in place to ensure that deposits are made each month to the Replacement Reserve account for property replacements.
9. Comment – Management agrees with the finding and the accounting staff has been reminded of the importance of ensuring that deposits are made on a monthly basis to the Replacement Reserve account.

C. E. Ware Towers, Inc.
Project Number 081-EE037

Certification of Project Owner

June 30, 2006

We hereby certify that we have examined the accompanying financial statements and supplemental data of C. E. Ware Towers, Inc., 2171 Judicial Drive, Suite 200, Germantown, Tennessee 38138 (901) 759-1855, Employer Identification Number 30-0134249 and, to the best of our knowledge and belief, the same is complete and accurate.



Officer



Officer

C. E. Ware Towers, Inc.
Project Number 081-EE037

Management Agent Certification

June 30, 2006

We hereby certify that we have examined the accompanying financial statements and supplemental data of C. E. Ware Towers, Inc., Memphis, Tennessee, and to the best of our knowledge and belief, the same is complete and accurate.

Beth-Reach, Inc. 62-1792643
Management Agent
1663 Alcy Road
Memphis, TN 38114
(901) 942-1878

Marilynn J. Halfacre

Alice Harris

2006 A/F
File Copy - Do Not
Remove

C. E. WARE TOWERS

MEMPHIS, TN

HUD PROJECT NO. 081-EE037

FINANCIAL STATEMENTS - REGULATORY BASIS

AND SUPPLEMENTAL INFORMATION

FEBRUARY 20, 2006

C. E. WARE TOWERS
HUD PROJECT NO. 081-EE037

CONTENTS

FEBRUARY 20, 2006

	<u>PAGE</u>
Report of Independent Auditors'	1
Financial Statements-Regulatory Basis	
Statement of Assets, Liabilities and Project Equity-Regulatory Basis	3
Notes to Financial Statements-Regulatory Basis	4-6
Mortgagor's Certificate of Actual Cost	7-8
Supplemental Information	
Schedule of Mortgagor's Certificate of Actual Cost	9-10
Independent Auditors' Report on Internal Control	11-12
Independent Auditors' Report on Compliance with Specific Requirements Applicable to Major HUD Programs	13

Report of Independent Auditors

The Board of Directors
C. E. Ware Towers

We have audited the Mortgagor's Certificate of Actual Cost (Form HUD-92330) through February 20, 2006, pertaining to the development of C. E. WARE TOWERS, HUD Project No. 081-EE037, and the statement of assets, liabilities, and project equity-regulatory basis, as of February 20, 2006. These financial statements are the responsibility of the Project's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Mortgagor's Certificate of Actual Cost, and the project's financial statements have been prepared on the basis of accounting and reporting practices prescribed by the Department of Housing and Urban Development (HUD). These prescribed practices are a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the Mortgagor's Certificate of Actual Cost and the financial statements referred to above, present fairly, in all material respects, the actual costs of C. E. Ware Towers through February 20, 2006 and the assets, liabilities and project equity as of February 20, 2006, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued reports dated October 23, 2006, on our consideration of C. E. Ware Tower's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements of C. E. Ware Towers. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, members, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We certify that we have no financial interest in the mortgagor other than in the practice of our profession.

October 23, 2006

C. E. WARE TOWERS

HUD PROJECT NO. 081-EE037

**STATEMENT OF ASSETS, LIABILITIES, AND
PROJECT EQUITY - REGULATORY BASIS**

FEBRUARY 20, 2006

ASSETS

Cash – construction account	6,695
Cash – minimum fund account	100
Receivable to minimum fund account	10,000
Receivable to replacement reserve	3,887
Land	75,000
Buildings	3,441,764
Equipment	<u>18,315</u>
Total Assets	<u>3,555,761</u>

LIABILITIES AND PROJECT EQUITY

Accounts payable – construction	535,914
Accounts payable – replacement reserve	3,887
Mortgage payable	2,997,835
Development advances	<u>18,125</u>
Total Liabilities and Project Equity	<u>3,555,761</u>

See accompanying notes to the financial statements-regulatory basis.

I HEREBY CERTIFY that the foregoing figures and statements contained herein submitted by me as agent of the mortgagor for the purpose of obtaining mortgage insurance under the National Housing Act, under Section 202 of the Housing Act of 1959, as amended, are true and give correct showing of C. E. Ware Tower's financial position as of February 20, 2006.

Signed this 23rd day of October, 2006

Signature

Printed Name

Warning – HUD will prosecute false claims and statements. Conviction may result in criminal and/or civil penalties. (18 U.S.C. 1001, 1010, 1012; 31 U.S.C. 3729, 3802)

C. E. WARE TOWERS

HUD PROJECT NO. 081-EE037

NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS

FEBRUARY 20, 2006

1. Organization and Summary of Significant Accounting Policies

The Project is organized as a not-for-profit corporation under the laws of the State of Tennessee for the purpose of owning and operating an apartment complex of 56 units under Section 202 of the National Housing Act. There is a Regulatory Agreement with the U.S. Department of Housing and Urban Development that regulates rental charges and operating methods. This is a major program.

Legal title to the Project is held by C. E. Ware Towers, Inc. The accompanying financial statements are those of the Project and do not represent the financial statements of C. E. Ware Towers, Inc. Transactions outside of the Project's operations do not exist, and therefore are not included in these financial statements.

The financial statements have been prepared in conformity with the accounting and reporting standards prescribed by the U.S. Department of Housing and Urban Development (HUD) in the Audit Guide for Auditing Development Costs of HUD-Insured Multifamily Projects. These standards differ in some respects from accounting principles generally accepted in the United States of America, and the financial statements reflect the following additional HUD accounting and reporting principals:

Costs are to be exclusive of kickbacks, rebates, or trade discounts.

Financing charges are limited to the lesser of amounts actually paid, or amounts approved by HUD, on the Mortgagee's Certificate.

Project equity represents the difference between the funds received by the Project from C. E. Ware Towers, and the costs incurred to develop the Project, and the income from the Project. Accordingly, Project equity is not intended to reflect the equity of the corporation and the financial statements are not intended to represent those of the corporation.

2. Date of Cost Certification

In accordance with guidelines set forth by the U.S. Department of Housing and Urban Development (HUD) regarding Mortgagor's Cost Certification, the date of February 20, 2006 is the cut-off date for the cost certification.

C. E. WARE TOWERS

HUD PROJECT NO. 081-EE037

NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS - Continued

FEBRUARY 20, 2006

3. Mortgages Payable

Funds were advanced through the Capital Advance Program of HUD (total approved advance is \$3,548,300) subject to a mortgage note dated September 29, 2004, collateralized by substantially all land, buildings, and equipment:

Construction draws numbered 1-17	<u>2,997,836</u>
----------------------------------	-------------------------

4. Schedule of Accounts Payable - Construction

Barnett Naylor	410,284
Barnett Naylor - Change orders	5,921
Rowland & Carter, CPAs, PLLC - Cost cert. audit	6,000
Little & Associates - Architect's supervision	6,098
Betty Shaw - Consultant	31,511
The Lowrance Law Firm - Legal	2,750
Sylvester Butler - Neighborhood Network	5,668
Barnett Naylor - Printer interface (Stop Alarms)	542
American Photography - Printer	750
Limpscomb & Pitts Insurance	30,461
David Isom - Furniture	5,448
Tri-State Bank - Service charges	16
Memphis Light, Gas & Water - Deposit	19,755
Bell South - Deposit	710
Minimum Fund Account	<u>10,000</u>
	<u>535,914</u>

5. Accounts Payable - Replacement Reserve

The Project received four (4) advances from the capital advance in which not all of the advance was used for the approved purpose. The four (4) advances are as follows:

<u>Advance</u>	<u>Amount Received but not Distributed</u>	<u>Comment</u>
#10	\$732	Advance for Hall Blake & Associates was \$1,221. The amount of \$489 was disbursed. The remaining \$732 does not represent an outstanding balance.

C. E. WARE TOWERS

HUD PROJECT NO. 081-EE037

NOTES TO THE FINANCIAL STATEMENTS - REGULATORY BASIS - Continued

FEBRUARY 20, 2006

5. Accounts Payable – Replacement Reserve (Continued)

<u>Advance</u>	<u>Amount Received but not Disbursed</u>	<u>Comment</u>
#14	\$36	Received advance of \$684 to pay City of Memphis real estate taxes. Amount paid was \$648. The remaining \$36 does not represent an outstanding balance.
#18	\$1,287	Received advance of \$31,883 to pay Lipscomb & Pitts for insurance. Amount paid was \$30,546. The remaining \$1,287 does not represent an outstanding balance.
#21	\$1,832	Received advance of \$7,500 for the Network Neighborhood. Amount paid was \$5,668. The remaining \$1,832 does not represent an outstanding balance.
	<u>\$3,887</u>	

Capital advances received which were not disbursed totaled \$3,887 and are shown as a liability to be paid into the replacement reserve fund.

6. Development Advances

Rev. C. E. Ware, who is majority owner of Beth-Reach, Inc., the management agent, and Beth-Reach, Inc., the management agent, have in total advanced \$58,075 to the Project. The Project reimbursed Rev. C. E. Ware and Beth Reach, Inc. for a portion of the advances. As of February 20, 2006 Rev. C. E. Ware and Beth Reach, Inc. had a net advance to the Project of \$18,125.

7. Subsequent to February 20, 2006 the Project advanced to Rev. C.E. Ware and/or Beth Reach, Inc. a total of \$27,000. As a result of these advances, the Project is owed \$8,875 from Rev. C.E. Ware and/or Beth Reach, Inc. as of the date of this report.

C. E. WARE TOWERS

HUD PROJECT NO. 081-EE037

SCHEDULE OF MORTGAGOR'S CERTIFICATE OF ACTUAL COST

FEBRUARY 20, 2006

	<u>Paid in Cash Column A</u>	<u>Paid 45 Days after Endorsement Column B</u>	<u>Total Column C</u>
Item 1a – Amount Due Under Lump – Sum Construction Contract			
Barnett Naylor	2,554,145	410,284	2,964,429
Barnett Naylor – change orders	<u>87,224</u>	<u>5,921</u>	<u>93,145</u>
	<u>2,641,369</u>	<u>416,205</u>	<u>3,057,574</u>
Item 2a – Architect's Fee – Design			
Little & Associates	<u>86,328</u>		<u>86,328</u>
Item 2b – Architect's Fee – Supervision			
Little & Associates	37,502	8,895	46,397
Little & Associates – overpayment	<u>0</u>	<u>(2,797)</u>	<u>(2,797)</u>
	<u>37,502</u>	<u>6,098</u>	<u>43,600</u>
Item 4 – Taxes			
Shelby County	684		684
City of Memphis	<u>600</u>		<u>600</u>
	<u>1,284</u>		<u>1,284</u>
Item 5 – Property Insurance			
Beth-Reach, Inc. - Liability	5,694		5,694
Clay & Land Insurance – Builders Risk	5,430		5,430
H. P. Hefferman Insurance – Bond	9,334		9,334
Lipscomb & Pitts, Insurance – Liability	6,899	30,461	37,360
Barnett Naylor – Builders Risk	5,430		5,430
Azria Lewers & Jessie J. Lyons Manor- 3 Month Liability Extension	<u>3,254</u>		<u>3,254</u>
	<u>36,041</u>	<u>30,461</u>	<u>66,502</u>
Item 9 – Title and Recording Fees			
Lowrance Law Firm	<u>10,135</u>		<u>10,135</u>
Item 12a – Legal			
Lowrance Law Firm	<u>8,250</u>	<u>2,750</u>	<u>11,000</u>
Item 12c – Mortgagor's Cost			
Certification Audit Fee			
Rowland & Carter, CPAs, PLLC		<u>6,000</u>	<u>6,000</u>

C. E. WARE TOWERS

HUD PROJECT NO. 081-EE037

SCHEDULE OF MORTGAGOR'S CERTIFICATE OF ACTUAL COST - Continued

FEBRUARY 20, 2006

	<u>Paid in Cash Column A</u>	<u>Paid 45 Days after Endorsement Column B</u>	<u>Total Column C</u>
Item 13 – Other Third Party Fees			
David W. Milem, P.C. - Engineering	19,420		19,420
Bill Lamb – Independent Cost Analysis	1,800		1,800
Anderson Engineering	1,920		1,920
Barnett Naylor – Reimburse Hall, Blake & Assoc.	1,475		1,475
Hall, Blake & Associates – Survey/soil testing	489		489
Beth-Reach, Inc. – Reimbursed for:			
Office of Planning and Development	500		500
Chandler & Chandler - Appraisal	2,000		2,000
Hall, Blake & Associates - Environmental	2,500		2,500
Office of Planning and Development	150		150
Secretary of State	100		100
Shelby County	7		7
	<u>30,361</u>		<u>30,361</u>
Item 15a – Consultants' Fees			
Betty Shaw	63,689	31,511	95,200
Estate of Troy Patterson	7,000		7,000
	<u>70,689</u>	<u>31,511</u>	<u>102,200</u>
Item 15d – Other			
Minimum Fund Escrow Account		10,000	10,000
Memphis Light, Gas & Water - Deposit		19,755	19,755
Bell South - Deposit		710	710
David Isom – Furnishings		5,448	5,448
American Photocopy – Computer	850		850
American Photocopy – Printer/Fax/Scanner	5,877		5,877
IPM Software – Software	2,273		2,273
Sylvester Butler – Network Neighborhood		5,668	5,668
Barnett Naylor – Printer		542	542
American Photocopy – Paper		750	750
Tri-State Bank – Service Charges	48	16	64
Beth Reach, Inc. – Lease Acquisition	75,000		75,000
	<u>84,048</u>	<u>42,889</u>	<u>126,937</u>
Subtotal	<u>3,006,007</u>	<u>535,914</u>	<u>3,541,921</u>
Total	<u>3,006,007</u>	<u>535,914</u>	<u>3,541,921</u>

Independent Auditors' Report on Internal Control

**The Board of Directors
C. E. Ware Towers**

We have audited the financial statements of C. E. WARE TOWERS, HUD Project No. 081-EE037, as of February 20, 2006, and have issued our report thereon dated October 23, 2006. We have also audited the Project's compliance with requirements applicable to major HUD-assisted programs and have issued our report thereon dated October 23, 2006.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Consolidated Audit Guide for Audits of HUD Programs* (the "Guide"), issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General. Those standards and the Guide require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the Project complied with laws and regulations, noncompliance with which would be material to a major HUD-assisted program.

The management of C. E. WARE TOWERS is responsible for establishing and maintaining effective internal control. In planning and performing our audit of the financial statements, we considered the Project's internal control over financial reporting and its internal control over compliance with requirements that would have a direct and material effect on a major HUD-assisted program in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance and not to provide assurance on the internal control over financial reporting and the internal control over compliance.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements caused by error or fraud that would be material in relation to the financial statements being audited or that noncompliance with applicable requirements of laws and regulations that would be material in relation to a major HUD-assisted program would occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control and its components that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the audit committee, members, management, and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

October 23, 2006

**Independent Auditors' Report on Compliance with
Specific Requirements Applicable to Major HUD Programs**

**The Board of Directors
C. E. Ware Towers**

We have audited the compliance of C. E. WARE TOWERS, HUD Project No. 081-EE037 with the specific program requirements governing federal financial reports, accounting system, cut-off timing, eligibility of costs, and identity-of-interest that are applicable to each of its major HUD-assisted programs for the construction period ended February 20, 2006. Compliance with those requirements is the responsibility of the Project's management. Our responsibility is to express an opinion on the Project's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Consolidated Audit Guide for Audits of HUD Programs* (the "Guide"), issued by the U.S. Department of Housing and Urban Development, Office of Inspector General. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the requirements referred to above that could have a direct and material effect on a major HUD-assisted program occurred. An audit includes examining, on a test basis, evidence about the Project's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not constitute a legal determination of the Project's compliance with those requirements.

The results of our audit disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

In our opinion, the Project complied, in all material respects, with the requirements described above that are applicable to each of its major HUD-assisted programs for the construction period ended February 20, 2006.

This report is intended solely for the information and use of the audit committee, partners, management, other parties within the organization and the Department of Housing and Urban Development, and is not intended to be and should not be used by anyone other than these specified parties.

October 23, 2006